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Chairman William McCarty
? Mr. David Johnson
Indiana Utility Regulatory Commission
Electricity Division

Re: Proposed Rulemaking on Distributed Resources

Dear Chairman McCarty:

I wish to congratulate the Commission on beginning discussions on an issue which is certain to play a significant role in the future of energy delivery in the State of Indiana. Indiana needs to attack these issues proactively and establish the "rules of the road" in a timely manner such that the suppliers of these products and the end users can begin to proceed with their implementation. I also wish to praise a well thought out and articulated paper on this subject. The Distributed Generation White Paper was very thorough and openly discussed both sides of many very complicated issues.

On behalf of Richmond Power and Light, I would like to offer my thoughts on the issue of applying distributed resources and how it may impact our industry, in particular a Public Power perspective. RP&L is one of 72 municipally owned electric utilities in the State of Indiana. RP&L currently serves 22,000 customers in the Richmond area and has always prided itself on being a low-cost, reliable, innovative electric utility. RP&L was established in 1902 and therefore will be celebrating 100 years of service this year.

I have chosen to submit comments on some of the issues as follows:

Organizational Structure

In reviewing the white paper it became clear that the impact of some of these issues would affect incumbent electric suppliers in various ways depending upon their organization structure. Policy considerations need to take into account the widely varying makeup of the suppliers. Clearly, the Investor Owned Utilities account for the largest portion of sales, assets, and customer base. They serve rural as well as metropolitan areas. They serve large groups of residential, commercial, and industrial customers. The same cannot be said when you look to the Rural Electric Cooperatives and the Municipals. The REMCs serve primarily

rural areas consisting predominately of residential and farm customers, with some exceptions. Municipals on the other hand, serve primarily cities and towns consisting of widely varying customer bases. Some serve primarily residential customers while others have a large mix of commercial and industrial customers.

The point of the preceding paragraph is that a one-size-fits-all policy statement concerning a distributed resource product would ignore the fact that the utility systems to which they would interconnect are unique.

Interconnection Requirements

The white paper correctly outlines the current situation pertaining to IEEE 547. In the absence of an industry standard, the IURC will have to develop its own. ***Any standard, or guidelines, that the IURC develops should be interim in nature and be superceded by IEEE upon adoption.*** The best application of products occurs when the requirements vary as little as possible from one jurisdiction to another. Standardization is key to the rapid deployment of most technologies.

Special emphasis should be placed on power quality and safety. Any device that interconnects with the electric grid has the potential to create power quality issues. This not only will result in problems for the immediate end user, but also potentially for any other customer connected to that grid. There have been several cases of power quality complaints that were the result of equipment in operation at other customer locations. ***The utility must have clear guidelines to follow to disconnect distributed resources from the grid that are causing power quality issues.***

The safety of the general public and utility employees should demand the highest level of attention. Utility companies have spent the last 100 years developing and refining systems that isolate faults and other potential dangerous conditions as quickly as possible. ***Any policy statement approved by the IURC must include language that requires distributed resources to protect against islanding, or otherwise feeding power into the grid at times of faults or other system disturbances. The utility shall retain the ability to disconnect the distributed power source during times of emergency.*** The public and emergency response personnel should not be subjected to multiple sources that may potentially energize a downed power line.

Cost Recovery

Equitable cost recovery of distributed resources is required if we are to avoid the problem of cost shifting within the utilities customer base. This becomes especially critical for the smaller electric utilities (primarily REMC's and Municipals) since their customer base is small. A small utility may serve its distribution customers through one or two substations, requiring just a few feeders. If a large customer installs a distributed resource and essentially "removes" himself from the grid, then the remaining customers will be stuck with paying for the distribution system investment. Again, for small utilities, this cost shifting could be substantial. For large systems of 400,000 to 1,500,000 customers, this cost may very well be insignificant. Also, for small systems, the likelihood of additional customers coming on-line to replace that lost distribution revenue is minimal at best.

This again takes me back to my opening reference to the difference in organizational structure. If distributed resources result in stranded capacity on the distribution system, then that cost will need to be recovered by the utility. Herein again is where our differences come into play. For REMC's and municipals, our customers are our owners. We do not have shareholders available to absorb stranded investments. In this case, our customers will have to pick up the difference. ***If we are to be required to provide backup services, then those services should be priced to recover investment in the distribution system.***

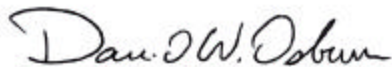
Distribution Planning vs. the Obligation To Serve

Under the current market structure, the utility assumes the obligation to serve any customers that locate within its service territory. The dilemma that distributed resources present the utility planner is "how much capacity is required?" One of the touted benefits of distributed resources is avoiding investments in distribution system upgrades because the supply is now located at the load. This is fine, if the utility is relieved of its obligation to serve. If the utility is still required to provide backup power then the distribution system will still have to be designed to deliver that amount of capacity. Where is the savings? ***A cost recovery mechanism needs to put in place to account for standby distribution capacity.***

When it comes to power supply, it becomes even more problematic for the smaller utility. Normally, power supply planning involves making purchase reservation a year ahead. If the utility is required to supply emergency power to the end user in the event of a distributed resource going off-line, the cost could be substantial. Finding replacement power for a limited amount of time and in an odd size block could be difficult at best. The average size distributed generation product may be between 75 kw to 2,000 kw. Market power reservations for power are sold in standard blocks of 50,000 kw at 5x16. ***Commission policy should allow for full recovery of these costs.*** Again, most, if not all, municipal and REMC utilities are net purchasers of energy. There is no excess generation available to sell to other customers or make available as standby power.

This concludes my comments pertaining to distributed resources. I hope they have been of some use to the Commission as you begin to evaluate this important subject. I would be happy to make myself available for questions or follow-up discussions if necessary.

Sincerely,



David W. Osburn,
General Manager, CEO
Richmond Power & Light